

FORRESIGHT

A PUBLICATION OF THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER VOL. 11 NO. 2 2004

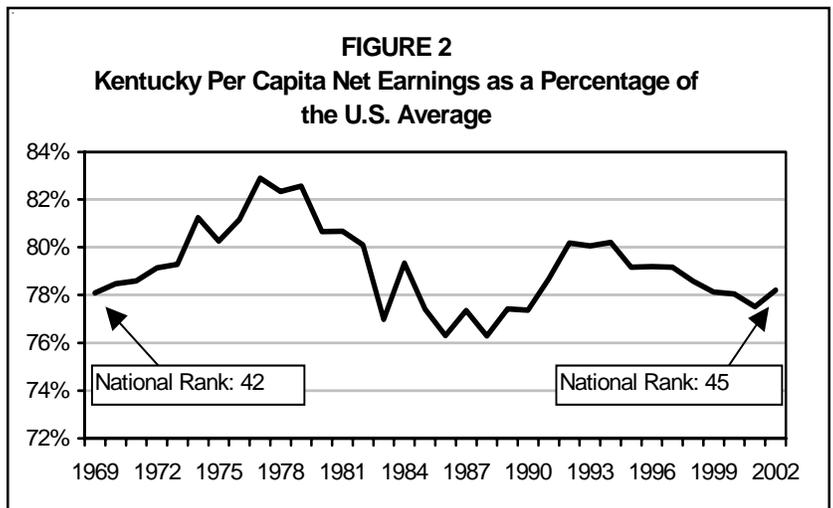
WANTED: Ideas for a More Prosperous Future

By Michael T. Childress

What can Kentucky do to leapfrog ahead...to build lasting prosperity for all its citizens...to put per capita income above the national average for the first time ever? Policymakers, educators, entrepreneurs, business and labor leaders, and interested citizens will discuss and gather ideas on all the development pieces at the Kentucky Long-Term Policy Research Center's 11th annual conference, *Getting Ahead of the Curve: A Working Conference to Generate Ideas, Innovations, and an Agenda for Future Prosperity*, on Tuesday, November 16, 2004, at the Lexington Convention Center.

The old adage, "Keep doing what you're doing, and you'll keep getting what you got," comes to mind when looking at Kentucky's economic past and thinking about its future. To be sure, our state has made huge gains over the years, but so have many other states. Consequently, our national ranking in per capita personal income, a commonly used indicator of economic well-being, has languished for the past 34 years at around 42nd place.

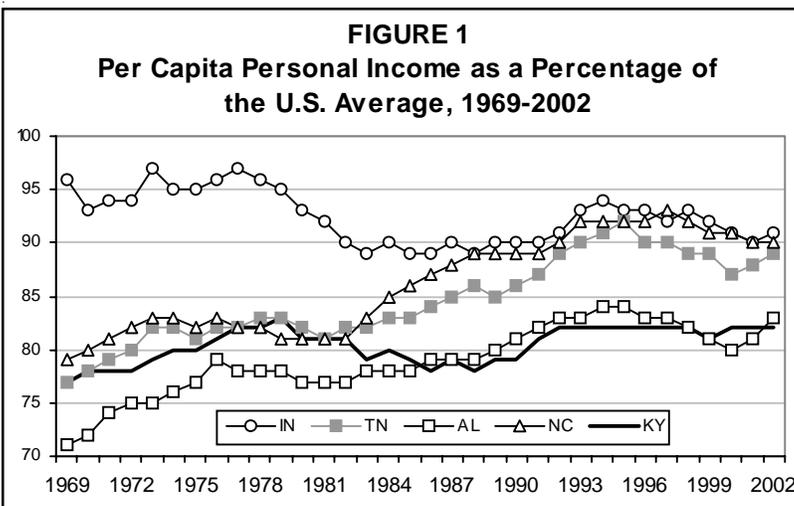
And during this same period, we actually fell three notches, from 42nd to 45th, in the national ranking of per capita net earnings,



which is arguably a better indicator of a state's economic vibrancy (see Figure 2). If we were only competing against Arkansas, Mississippi, Montana, West Virginia, and New Mexico, the five states we lead, we would be just fine. But we're not just competing against a handful of economically anemic states, we're competing in a global economy that continues to evolve and present new challenges.

A Closer Look at Kentucky

The seven Kentucky counties that anchor the three vertices of the "urban triangle" are the only ones currently above the national average for per capita net earnings (see Map).¹ The challenge in front of us is to broaden the base of prosperity. However, the entrenched poverty in many counties makes this challenge exceedingly difficult. Of the 30 counties in the bottom quartile in 2002, 24 were in the bottom quartile 35 years ago in 1969. Obviously, there are systemic, deep-seated development hurdles in these counties. In a substantially rural state like Kentucky, rural development policy demands attention (see



In 1969, Kentucky was well ahead of Alabama, tied with Tennessee, and just behind North Carolina. By 2002, Alabama had caught us while Tennessee and North Carolina surged ahead (see Figure 1).

Mr. Childress is Executive Director of the Kentucky Long-Term Policy Research Center.

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Kentucky Per Capita Net Earnings



the article by Mark Drabenstott, “A New Map for Rural America’s New Economic Frontier,” in this issue of *Foresight*). However, our urban centers cannot afford to embrace their relative prosperity to the exclusion of entrepreneurial enhancement, market expansion, infrastructure development, workforce improvement and continuous innovation. In this globally competitive economy, the window of economic opportunity can open quickly and shut suddenly.

This conference is designed to collect ideas, suggestions, recommendations, and options with the goal of building a “to do

list” for a more prosperous future. In addition to the morning plenary sessions, which will focus on a broad range of future economic development issues, the eight afternoon breakout sessions will focus on the building blocks of economic development: transportation, information technology, workforce development, entrepreneurship, innovation, taxes and regulation, environment, and community-level development. We will solicit ideas from conferees during these sessions on “getting ahead of the curve.”

Tell us what you think. What goes on your “to do list” if we are to get ahead of the curve and build broad-based future prosperity? Go to our Web site and tell us your ideas for action <<http://www.kltprc.net/conference2004.htm>>, and then join us on November 16 for this exciting and important event. The information garnered from this day-long conference will be used for a planned white paper, representing the ideas for constructing and maintaining broad-based future prosperity.

Notes

¹ The seven counties are Boone, Kenton, Jefferson, Oldham, Fayette, Scott, and Woodford. We did not include Hickman, even though BEA reports a per capita net earnings total that exceeds the national average. Based on input from officials familiar with the Hickman County economy, there is reason to believe that some sort of sampling error has taken place.

Correction

Due to a printer’s error, please note the correction indicated below for Table 4 found on page 5 of *Foresight*, Volume 11, No.1.

TABLE 4 Kentucky Ranked by Subindex Scores and Indicator Index Scores 2001 and 1990 and the Directional Net Change in Rank, 1990-2001			
National Index			
Subindex or Indicator Name	2001	1990	Change in Rank
Environment	34	37	+3
19. Per Capita Air Emissions	43	38	-5
20. Per Capita Surface Water Discharges	37	31	-6
21. Per Capita Toxic Land Releases	38	14	-24
22. Air Quality	25	16	-7
23. Water Quality	29	46	+17

FORESIGHT

KENTUCKY

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A New Map for Rural America's New Economic Frontier

By Mark Drabenstott

Rural America is on a bold quest for a new economy in the 21st century. Although no stranger to economic change, rural regions throughout the nation have been pushed onto a new economic frontier by powerful forces. Productivity gains in traditional rural industries, including agriculture and manufacturing, have been one push for change. But the bigger force has been the world market. Relentless competition in the commodity markets that have long been the bread and butter of rural economies has led to widespread consolidation in agriculture, manufacturing and mining. The result has been more and more rural communities wondering how to build a new economic engine.

Thankfully, the same march of technology that is redrawing industries is also opening new rural opportunities. Pharmaceutical crops, precision products from advanced manufacturing, and freshly branded regional products marketed via the Internet are three of many markets that simply did not exist a few short years ago.

The push of new economic forces has resulted in a highly uneven rural economy today. Roughly six of every 10 rural areas are lagging behind the national economy in terms of adding new jobs. The nation's vast heartland stands out as a region that is looking for new economic engines, though lagging rural regions can be found in many other pockets of the nation. It is no coincidence that lagging rural areas often are heavily dependent on agriculture and manufacturing, industries that have undergone rapid consolidation. Conversely, regions with significant scenic amenities, such as the Intermountain West and the North Woods lakes regions, appear to have a built-in strategy for growth.

How can rural regions tap into the power of the new economy? While technologies offer good reasons to be bullish, the new frontier will require a different map to guide economic development decisions. The new map features three new strategies for rural economic development: thinking and acting regionally; finding a new economic niche for a region; and putting a premium on entrepreneurs.



Mark Drabenstott is the Vice President and Director, Center for the Study of Rural America, Federal Reserve Bank of Kansas City.

Thinking and Acting Regionally

Probably no single strategy has become more important to rural regions than *thinking and acting regionally*. Economic strategies are becoming more regional in scope as the realization deepens that regions are where the impacts of globalization are felt. Economists refer to this as *the new economic geography*, but the evidence is widely seen in budding efforts to think regionally.

Last year, nearly 20 new rural "regions" contacted our Center seeking help on new development efforts. These groups ranged in size from four to 20 counties. Representing every corner of the nation and yet very different cultures and economic assets, the regions had two things in common: They had concluded that they needed a new economic engine, and, communities within each region realized they could no longer have a "one water tower" development strategy. Despite the lively competition among communities that has long been a hallmark of the rural economic landscape, communities now understand they no longer have enough "water in the tower" to go it alone in the worldwide marketplace.

In scores of cases, regional thinking is driven by the realization that competing successfully in worldwide markets requires a critical mass that towns or counties can no longer muster on their own. Thinking regionally is, in fact, the transcending answer to the question of how regions reinvent their economies.

Defining an Economic Niche

Finding a world-class niche is the next step in reinventing the economy of a rural region. A niche approach to regional economic development flies in the face of existing practice in many corners of the nation. Copycat development has been widespread, driven by the longstanding view that industrial recruitment can succeed at the expense of one's neighbor.

But every region in America, rural or urban, must figure out its unique source of competitive advantage. That niche will be defined by pairing a region's distinct economic assets with an insightful analysis of new market opportunities. The region's competitiveness strategy then becomes the path from assets to opportunity.

For most rural regions, the competitiveness strategy will include exporting *something* beyond the region. Because few if any regions have the size and balance to be self-sufficient and simply sell things among their residents, it is especially crucial for rural regions to be able to sell products or services to other places, in the U.S. or beyond. To be sure, some rural regions will still focus on traditional natural resource-based products, such as agricultural commodities, timber, minerals, or energy, and others will stay focused on industrial commodities. But the fact remains that fewer and fewer rural regions will be successful in an overall commodity approach, simply due to the unyielding forces of consolidation at work in these sectors.

New economic niches to explore include industries such as product agriculture, advanced manufacturing and professional services. These and other new economic engines will be driven mainly by technology and knowledge, underscoring the importance of higher education in implementing new strategies.

Many regions will pursue more than one niche, but in most cases the new economic menu is not long. Being of world-class quality is a demanding challenge, and few regions will be able to succeed in several niches at once. At most, regions may discover a few niches that may suit their distinct economic assets.

A New Premium on Homegrown Entrepreneurs

In economic development, as in baseball, it often is easy to go after home run hitters. But buying free agents is an expensive strategy, and the strategy pays off most in the biggest markets – the Yankees syndrome. Smaller markets, like Kansas City, are finding new success in growing the “farm system,” an approach that can pay off but takes a lot more patience.

In economic development, industrial recruitment is the free agent model. It remains the most pervasive economic development strategy in America. More and more regions, however, are beginning to recognize its shortcomings. In an increasingly world-wide market, where costs are compared not between parts of the nation but between parts of the globe, industrial recruitment has become both high-cost and high-risk.

Every region must select an economic niche that leverages its distinct assets to capture new opportunity.

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costs are compared not between parts of the nation but between parts of the globe, industrial recruitment has become both high-cost and high-risk.

In 2003, Maytag closed its refrigerator plant in Galesburg, Illinois. *The Quad City Times* put this headline above its lead editorial the following Sunday: “Maytag Delivers Costly Lesson.” The lesson was costly because the region gave Maytag sizable financial incentives a few years earlier to keep the company in Galesburg. The editorial urged the region to “aim higher in its economic development strategy,” with a clearer focus on local companies, local jobs, and local wealth. Many other regions are reaching similar conclusions, although the inertia behind existing recruitment strategies remains powerful and persistent.

Especially in rural regions, the future lies in growing more entrepreneurs – particularly those who can start high-growth businesses that create jobs and wealth. Such businesses will be the real key to growing new economic engines. The good news is that rural areas appear to be much more likely to spawn small businesses than are metro areas (Figure 1). The bad news is that rural areas are much less successful in turning a business start into a high-growth business, the kind that produces lots of new jobs (Figure 2).

As in farm club baseball teams, rural entrepreneurs need great coaches in order to grow. Rural entrepreneurs often have one strong skill but need help rounding out the competencies that make businesses successful. In many cases, the coaches needed to mentor rural business owners and move them into the major leagues are missing.

Thus, rural regions actually face two big challenges as they reinvent their regional economies. The first is deciding to give up on industrial recruiting and move more resources to supporting entrepreneurs in the region. That is not an easy switch, since growing the farm system takes patience. The second is beefing up the region’s business coaching ranks, an issue that places new demands on public and private institutions.

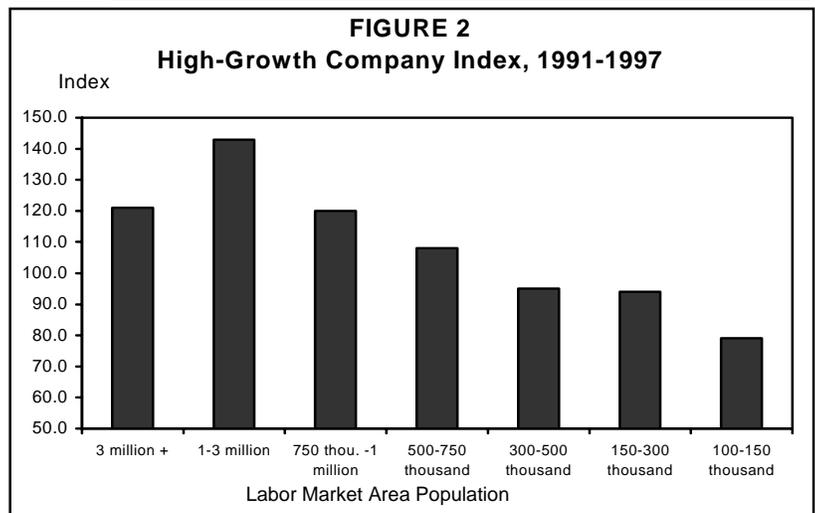
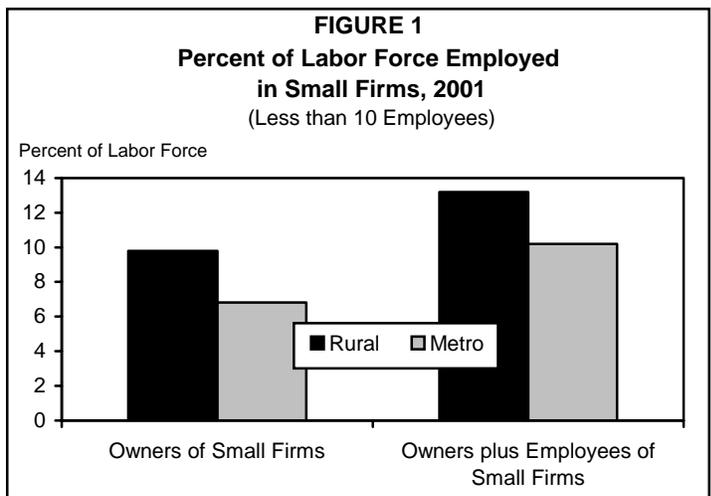
Put simply, rural America can no longer build its economic future on cheap labor, land, and taxes. It must put a premium on the entrepreneurs that can harness the power of innovation and technology and, in the process, transform rural regions into major league teams in the knowledge-based economy.

The Three-Point Plan

To succeed, communities must think and act regionally to assemble the critical mass that worldwide markets now demand. Every region must also select an economic niche that leverages its distinct assets to capture new opportunity. There is no longer one economic tide to lift all rural regions; the future belongs to regions that have a world-class strategy and execute it with distinction. Finally, regions must find ways to support a new generation of entrepreneurs. Locally grown companies – the ones that create local jobs and grow local wealth – offer much more economic return than the “big game hunting” of industrial recruitment, a hunt that has become far more expensive and far less rewarding than in the past.

The world market has put rural America on a quest for new economic engines. Fortunately, technology is opening the door to new opportunities at exactly the same time, and the economic promise is great. Harnessing that promise, however, requires rural communities to think very differently about their economic development strategies.

Reprinted with permission from *Economic Development America, Summer 2004*.



Robert M. (Mike) Duncan 2004 Hellard Award Winner

Robert M. (Mike) Duncan, an Inez banker with a national reputation for public service, is the recipient of the 2004 Vic Hellard, Jr. Award. The award, presented annually by the Kentucky Long-Term Policy Research Center Board of Directors, recognizes an individual for his or her contributions to the future well-being of the Commonwealth. It will be presented at the Center's 11th annual conference on November 16, 2004, at the Lexington Convention Center.

"Mike Duncan is a values-driven, virtuous gentleman who loves Kentucky," observed Education Cabinet Secretary Virginia Fox. "In all of his Kentucky work in education, economic development, youth mentoring and region building, Mike has recruited staff, program participants, board members and volunteers without regard to race, gender or political affiliation."

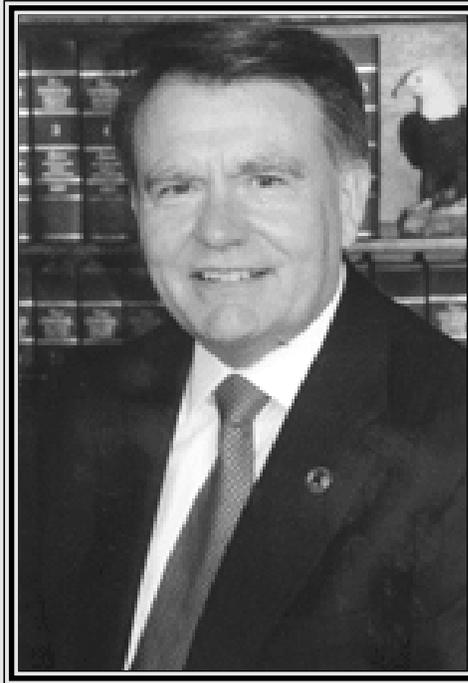
A civic capitalist, Mike Duncan is active in numerous professional and non-profit organizations. He served as chairman of a state university and a private college. He has served as Chairman for the Center for Rural Development in Somerset, a \$30 million state-of-the-art regional center emphasizing telecommunications, training, and development. President Bush appointed him to the President's Commission on White House Fellows in 2001. Duncan is a Trustee of the Christian Appalachian Project, the fifteenth largest private social services agency in America. Mr. Duncan is a former chairman and current director of the Kentucky Governor's Scholars Program, a unique educational experience for rising high school juniors. His student-mentoring program, in its twenty-sixth year, was featured on *CBS Sunday Morning* and in the *Los Angeles Times*.

Professionally, Duncan was President of the Kentucky Bankers Association and a Director of the Cleveland Federal Reserve Bank Cincinnati Branch. In 1989-90, during a sabbatical, he worked in the Bush White House as Assistant Director of Public Liaison. His public service has been recognized with several distinctions including honorary degrees from Cumberland College and the College of the Ozarks.

He has served as General Counsel of the Republican National Committee (RNC) since July 2002. He previously was elected Treasurer of the RNC in January of 2001. Duncan, in his third term as National Committeeman from Kentucky, has served the party at every level from precinct captain, county chairman, state chairman, and national officer. He has been a delegate to the 1972, 1976, 1992, 1996, and 2000 Republican National Con-

ventions and is one of the few persons ever to serve on the four standing convention committees.

Mike Duncan and his wife Joanne are 1974 graduates of the University of Kentucky College of Law. They live in Inez, Kentucky, and have one child, Rob, a recent University of Kentucky College of Law graduate. The Duncans are the principal owners of two community banks with five offices in eastern Kentucky.



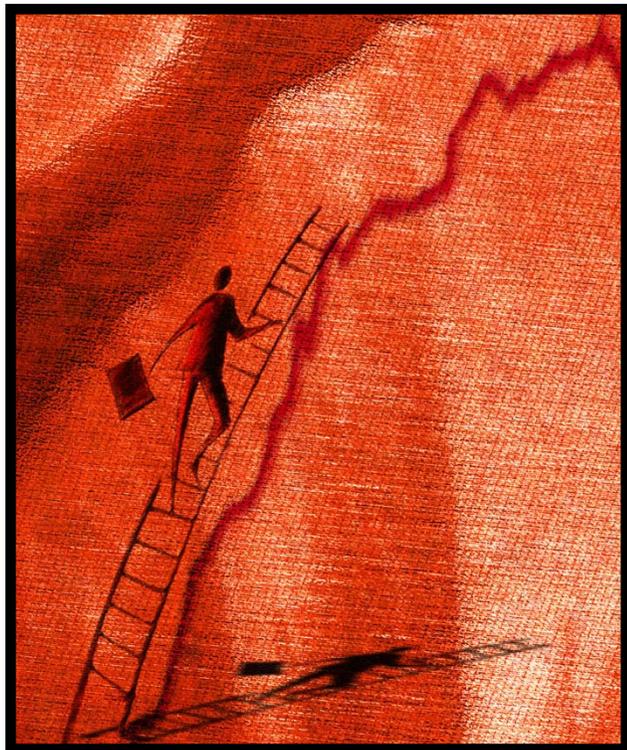
Given in recognition of service in the interest of Kentucky's future, the Hellard award is given in memory of Vic Hellard, Jr. and in honor of his long and distinguished career of public service. As Director of the Legislative Research Commission, Hellard was a tireless champion of legislative independence, considered by many to be the cornerstone of modern governance in Kentucky. He is also credited as the principal architect of the Kentucky Long-Term Policy Research Center. At the time of his death in 1996, Hellard, who had retired from his LRC post, was serving as a member of the Center's Board, contributing substantially to its guidance

and efforts to shape a vision for the future of the state and a system for evaluating progress toward its realization.

Previous winners of the Hellard Award are: *Judge Anthony M. Wilhoit*, retired Chief Judge of the Kentucky Court of Appeals and now Executive Director of the Kentucky Legislative Ethics Commission; *Joseph W. Kelly*, who served as chairman of the Kentucky Board of Education from 1991 until April of 1998, a period of far-reaching change for education in Kentucky; *Mary Helen Miller*, a retired state government executive whose career began in the classroom and went on to include high-level posts in both the legislative and executive branches under two governors; veteran journalist *Al Smith*, a former newspaper publisher, editor, and reporter, and one of the state's most engaging and enduring media personalities; renowned State Historian for Life, *Dr. Thomas D. Clark*, author of more than 20 books, recipient of countless awards, and the founder of the Thomas D. Clark Foundation, a private, nonprofit foundation that provides financial support for the University Press of Kentucky; *Virginia Fox*, long-time Executive Director of Kentucky Educational Television, who helped bring public television into the Kentucky classroom and the 21st century; and *Walter A. Baker*, a Glasgow attorney with a distinguished career of public service as a legislator and judge.

Getting Ahead of the Curve

A Working Conference to Generate Ideas, Innovations,
and an Agenda for Future Prosperity



Join us for the 11th
Annual Conference of the

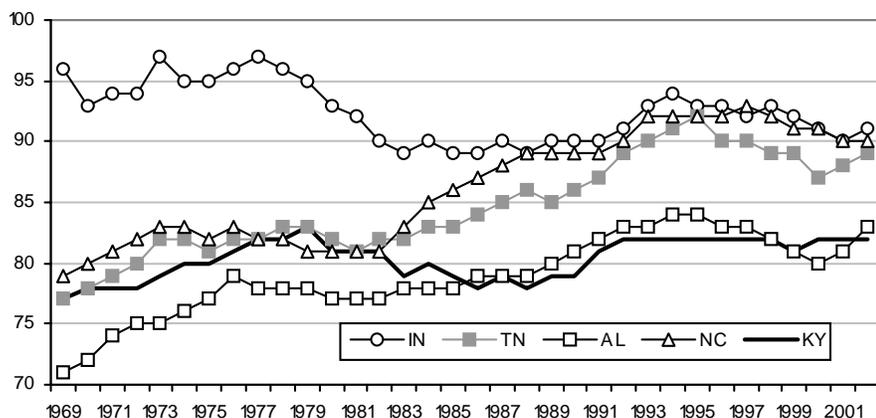
KENTUCKY

LONG-TERM POLICY
RESEARCH CENTER

Tuesday, November 16, 2004
Lexington Convention Center

How do we get ahead of the curve?

Per Capita Personal Income as a Percentage of the U.S. Average, 1969-2002



Trends in per capita personal income—the most widely recognized indicator of state economic health—show what Kentucky’s up against.

While we’ve made modest progress, neighboring states have caught or passed us on this key measure of well-being.

These comparison states are home to cities and regions many believe are among the nation’s best models for economic development—Indianapolis, Memphis, Nashville, Huntsville, Birmingham, and numerous cities in North Carolina. And the results show!

In 1969, Kentucky was well ahead of Alabama, tied with Tennessee, and just behind North Carolina. By 2002, Alabama had caught us while Tennessee and North Carolina surged ahead.

Getting Ahead of the Curve

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November 16, 2004

Lexington Convention Center

Lexington, Kentucky

8:45 - 9:00 a.m.

Welcome

Dr. Paul B. Cook, Chair

Kentucky Long-Term Policy Research Center Board of Directors

9:00 - 9:45 a.m.

Kentucky's Economic Development Issues: A Legislative Perspective

A panel of legislative leaders will be moderated by **Ms. Jaci Carfagno**, business editor, *Lexington Herald-Leader*, in a discussion of economic development issues confronting the Kentucky General Assembly.

9:45 - 10:30 a.m.

The Future Economic Contest: Competing in a Global Economy that Continues to Evolve

Ed Barlow

Founder of Creating the Future, Inc.

10:30 - 11:00 a.m.

BREAK

11:00 a.m. - Noon

Getting Ahead of the Curve

Mr. Bill Goodman, Host of KET's "Kentucky Tonight"; **Ms. Deborah D. Brock**, William and Kay Moore Chair of Entrepreneurship and Management, Berea College; **Mr. Jim Clinton**, Executive Director, Southern Growth Policies Board; **Mr. Luther R. Deaton, Jr.**, Chairman/President and CEO, Central Bank & Trust Co.; **Mr. Kris Kimel**, President, Kentucky Science and Technology Corporation; **Ms. Hilda Legg**, Administrator, USDA, Rural Utilities Service; **Dr. Walt Plosila**, Vice President, Public Technology Management, Battelle; **Dr. James Ramsey**, President, University of Louisville; **Rep. Jody Richards**, Speaker of the House, Kentucky General Assembly; **Mr. Phil Wilkins**, CEO, Diverse Wealth Systems; **Sen. David Williams**, President of the Senate, Kentucky General Assembly (invited).

Noon - 1:30 p.m.

LUNCH

Governor Ernie Fletcher (invited)

The Presentation of the 2004 Hellard Award

1:30 - 2:45 p.m.

Breakout Sessions

Building Blocks of Economic Development: Transportation

Panelists: **Dr. Merl Hackbart**, Professor of Finance and Public Administration, University of Kentucky; **Mr. Gary Mielcarek**, Public Affairs Manager, United Parcel Service; **Mr. Richard L. "Dick" Murgatroyd**, Deputy Secretary, Transportation Cabinet; **Mr. Paul E. Toussaint**, Director, University of Kentucky, Transportation Center.

3:00 - 4:00 p.m.

Bringing It All Together

Mr. Barlow will help us gather and make sense of the action items discussed in the breakout sessions. Center staff will use this information for a planned white paper presenting a "to do list" for a more prosperous future.

Information Technology

Panelists: **Mr. Darrell D. Brock, Jr.**, Commissioner, Governor's Office for Local Development and Assistant to the Governor for Public Policy; **Mr. Brian Mefford**, President and CEO, *ConnectKentucky* and the Center for Information Technology Enterprise (CiTE); **Mr. Joe Mefford**, Chief Information Officer and Director of Economic Development for the Kentucky League of Cities (KLC); **Mr. Larry Whitaker**, County Judge Executive, McLean County.

Workforce Development

Panelists: **Mr. Keith Bird**, Chancellor, Kentucky Community and Technical College System; **Mr. Kenneth M. Carroll**, Executive Director, Bluegrass State Skills Corporation; **Mr. Andrew J. Frauenhoffer**, Deputy Commissioner, Dept. for Workforce Investment; **Mr. Lyle Hanna**, Society for Human Resource Management; **Ms. Nancy Laprade**, President, The Pawleys Group.

Entrepreneurism

Panelists: **Ms. Deborah D. Brock**, William and Kay Moore Chair of Entrepreneurship and Management, Berea College; **Dr. Thomas S. Lyons**, Director, Center for Research on Entrepreneurship and Enterprise Development (CREED), University of Louisville; **Dr. Eric Scorsone**, Kentucky Entrepreneurial Coaches Institute (KECI), University of Kentucky.

Innovation

Panelists: **Mr. Dan Hall**, Vice President for External Affairs, University of Louisville; **Ms. Joanne Lang**, Executive Vice President, Kentucky Science and Technology Corporation; **Mr. Donald M. Miller**, Director, James Graham Brown Cancer Center; **Dr. Walt Plosila**, Vice President, Public Technology Management, Battelle.

Taxes and Regulation

Panelists: **Mr. Brad Cowgil**, Kentucky State Budget Director; **Ms. Mary E. Lassiter**, Deputy Executive Director of the Governor's Office for Policy Research; **Mr. Charles J. (Chaz) Lavelle**, Immediate Past Chairman, Kentucky State Chamber of Commerce Board of Directors and Attorney with Greenebaum, Doll & McDonald, PLLC; **Dr. David Wildasin**, Endowed Chair in Public Finance, Martin School of Public Policy, University of Kentucky.

Environment

Panelists: **Mr. Steve Austin**, President and CEO, Bluegrass Tomorrow; **Mr. Cam Metcalf**, Executive Director, Kentucky Pollution Prevention Center, University of Louisville; **Dr. Ronald R. Van Stockum, Jr.**, Attorney.

Community-level Development

Panelists: **Ms. Hilda Legg**, Administrator, USDA, Rural Utilities Service; **Mr. Tad Long**, New Cities Foundation; **Mr. Kevin T. Sheilley**, Executive Director/CEO, Team Taylor County.

2:45 - 3:00 p.m.

BREAK

Conference Will Feature Leading Thinkers in Economic Development

Continuing its tradition of partnering with other agencies and organizations, the Kentucky Long-Term Policy Research Center will again partner with Kentucky Educational Television (KET) to host a panel discussion on economic development. As in recent years, the discussion will be filmed by KET and aired statewide at a later date. This year's panel features distinguished state and national experts from the field of economic and regional development who bring varied perspectives to this critical discussion. Their fields of expertise range from banking to education and entrepreneurship, from infrastructure to the day-to-day challenges of running a business, from the role of science and technology to the critical work of shaping policy that gives life to best of our ideas for progress. Kentucky's leading lawmakers, Sen. David L. Williams, President of the Kentucky Senate, and Rep. Jody Richards, Speaker of the House of Representatives will lend their legislative experience in this vital area to the panel.

Bill Goodman, host of *Kentucky Tonight* on the Kentucky Education Network (KET) since September of 1996. Former business operator in Glasgow, Kentucky; news director at KPRC-TV in Houston. Also worked in various capacities at WTVF-TV in Nashville. Graduate of Western Kentucky University.



Debbi D. Brock, William and Kay Moore Professor of Entrepreneurship and Management and Assistant Professor in the Economics and Business department at Berea College, Co-Director of the Berea Entrepreneurship for the Public Good (EPG) program, former Director of the Entrepreneurial Resource Lab at Miami University in Ohio, former Director of the Kauffman Entrepreneurial Internship program at Miami, and former Executive Director of the Association of Collegiate Entrepreneurs (ACE).



Jim Clinton, Executive director of the Southern Growth Policies Board, member of the board of trustees for the Southeastern Universities Research Association and the board of directors for the Southern Arts Federation and the Trans-Atlantic Technology and Training Alliance, published poet, and lead author for many Southern Growth Policies Board reports.



Luther R. Deaton, Jr., Chairman/President and CEO of Central Bank & Trust Co., Lexington, Kentucky; 2004 inductee into the Junior Achievement of the Bluegrass Business Hall of Fame; winner of the Governor's Economic Development Leadership Award in 2001 and the Lexington Theological Seminary's John R. Wooden Award in 1997.



Kris W. Kimel, Founder and president of the Kentucky Science and Technology Corporation; president of KSTC's subsidiary company Intelligent Change Initiatives, Inc.; recipient of the University of Kentucky's 1974 Sullivan Award; and member of the Board of Directors of The Southern Technology Council, The United Way of the Bluegrass, and Lexington Catholic High School.



Hilda Gay Legg, Administrator of the Rural Utilities Service of the USDA; Vice Chair of Alice Lloyd College Board of Trustees; member of Campbellsville University's Advisory Board; former Executive Director and CEO of The Center for Rural Development in Somerset, KY; and former Director of Admissions and faculty member at Lindsey Wilson College in Columbia, KY.



Dr. Walter H. Plosila, Vice President, Public Technology Management, for Battelle Memorial Institute and leader of Battelle's Technology Partnership Practice; currently serves on the Board of Editors of *Commentary* and the Advisory Board for *Technology Access*; winner of the Founders' Award from the National Small Business Incubator Association and the Tibbetts Award from the U.S. Small Business Administration.



Dr. James Ramsey, President of the University of Louisville; former senior policy advisor and state budget director for the Commonwealth of Kentucky; winner of the National Governor's Association Outstanding Public Service Award in 2001; and Kentucky's Distinguished Economist of the Year, 1999.



Representative Jody Richards, Speaker of the House, Kentucky General Assembly, Representative of Kentucky's House District 20 (Warren County) since 1976, Wesleyan College, AB. Univ of Missouri, MA. member of the Bowling Green/Warren County Jaycees, the Chair-elect of the Southern Legislative Conference, member of the Southern Region Education Board, past President of the Southern Kentucky Fair Board, and Democratic Caucus Chair 1987-1994.



Phillip Wilkins, Author of *The Wealthy Entrepreneur*; owner of Diverse Wealth Systems, Rising Star, Inc., and PJK Holdings; member of the Board of Directors for the National Black McDonald's® Operators Association, McDonald's® Regional Leadership Council, the North Lexington YMCA, Kentucky Science and Technology Corporation, and Lexington United; and a Visiting Professor in the Urban League's Black Executive Exchange Program.



Senator David L. Williams, President of the Senate; has served in the Kentucky General Assembly for 19 years, 17 of those in the Senate. Former Caucus Chairman, Minority and Majority Floor Leader. Made history when he became the first Republican ever elected to serve as Senate President in January 2000. Williams has been recognized as "Legislator of the Year" and "2000 Republican Legislative Leader of the Year" by national organizations.



The registration form for the
2004 Kentucky Long-Term Policy Research Center Conference,
Getting Ahead of the Curve
can be found on page 9.

KENTUCKY LONG-TERM POLICY RESEARCH CENTER PRESENTS:

Getting Ahead of the Curve

**A Working Conference to Generate Ideas, Innovations,
and an Agenda for Future Prosperity**

Tuesday, November 16, 2004, Lexington Convention Center

TO REGISTER: Copy this form as many times as needed and mail or fax it, with or followed by a check or money order made payable to the [Kentucky State Treasurer](#), to:

**KLTPRC Conference, PO Box 4817, Frankfort, KY 40604
or Fax to 1-800-383-1412 or 1-502-564-1412.**

TITLE _____ FIRST _____ LAST _____

ORGANIZATION _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

PHONE _____ FAX _____ E-MAIL _____

_____ **\$50 Registration Fee postmarked by November 8, 2004**

_____ **\$10 Student Rate**

_____ **Group: 5th person attends free with 4 paid registrations**

(Please send group registrations together.)

A limited number of scholarships are available upon request.

Registrations faxed or postmarked after November 8, 2004, will be \$60.

SPECIAL NEEDS: (Dietary or Other)

CANCELLATION, REFUND, & SUBSTITUTION POLICIES:

Cancellations received after November 8, 2004, will not be refundable. Substitutions are welcome.

“No shows” will be charged the full fee.

STATE EMPLOYEES ONLY

MARS Agency # _____

MARS Contact Name _____

Phone _____ E-Mail _____

Scanning Kentucky

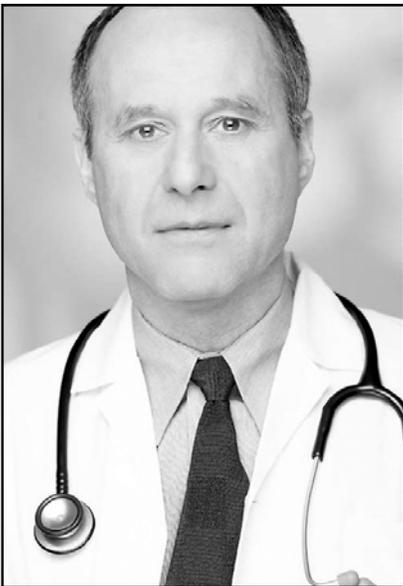
Emerging trends and issues that may affect the Commonwealth's future

Finding Ways to Cut Health Care Costs

Health care costs remain at or near the top of citizen concerns, surveys have found for years. Thus, policymakers face a mounting challenge to alter the rise of health care and health insurance costs and the ranks of the uninsured while they check the decline in employer-financed coverage. Due to these continuing and worsening circumstances, the underlying causes and potential points of leverage for savings have become increasingly important considerations.

For example, the Center for Information Technology Leadership estimates that shifting from handwritten to e-mail drug prescriptions by physicians for pharmacies could cut the nation's spiraling health care costs by as much as \$29 billion a year, *The Wall Street Journal* reports. A nationwide "e-prescription" system could minimize confusion caused by hard-to-read handwritten prescriptions, preventing serious errors in doses and drug combinations. An estimated \$2 billion in savings would come from fewer hospital and doctor visits due to fewer prescribing errors, but the most savings—\$27 billion a year—would be realized from fewer medication errors because an electronic system would curb duplication and also immediately inform doctors of cheaper generic alternatives.

Presuming that lower malpractice insurance premiums translate to lower health costs for patients, tort reform could choke off some



of the dramatic increases seen recently in malpractice premiums. In 24 states where medical malpractice awards have been capped by state laws, physicians paid malpractice insurance premiums that were 17.1 percent lower than their peers in other states, according to a study reported in the January issue of *Health Affairs*, but the drop did not counter an average price hike of 23.2 percent in 2002, preceded by a 2001 increase of 14.1 percent.

The study also concluded that malpractice increases had resulted from changes within the insurance industry, most notably higher administrative costs, the exit of providers from the market, and declines in investment income that had previously offset losses.

A more recent report by the *Dallas Morning News* found that Texas' tort reform law, which caps noneconomic damages at \$250,000, has not reduced premiums for most doctors in the state. On the other hand, it has caused a dramatic 80 percent reduction in malpractice lawsuits, suggesting that rates should come down—if assumptions about tort reform hold true.

Michael Bloomberg, Mayor of New York City, has launched an ambitious health initiative for the city, setting aggressive four-year goals for residents to control their blood pressure, keep up their vaccinations and cancer screenings, and make regular visits to the same doctor. The administration says it will pursue more widespread and uniform sex education in public schools, create an



Internet immunization registry for children that doctors can check, and significantly expand programs to test for HIV and give away syringes and condoms. It is also taking steps to encourage enrollment in Medicaid and other government health plans, giving anyone who enrolls in the programs a provider directory to facilitate care, and will even look into ideas like requiring that all city contractors provide health coverage for their workers.

Mayor Bloomberg was ridiculed for his crusade against smoking, but New York City just recorded an 11 percent decline in adults who smoke, one of the steepest short-term declines ever measured. The number of smokers dropped more than 100,000 in just over a year, suggesting that an aggressive focus on health and wellness is likely to get more results in the coming months.

Closer to home, the U.S. Centers for Disease Control and Prevention (CDC) has recommended that Kentucky spend between \$25.1 million and \$69.9 million in order to establish an effective, comprehensive tobacco prevention program here. The state now allocates \$2.6 million a year for tobacco prevention, about 1 percent of the \$129 million in tobacco-generated revenue the state collects each year in tobacco settlement payments and tobacco taxes.

Implications for Kentucky. Cutting needless costs out of our health care system, these disparate news items argue, is everybody's business, from providers and lawmakers to citizens who ultimately bear partial responsibility for their own health. Given the disproportionate impact of smoking and its adverse effects on the health of Kentuckians, who register the nation's highest adult and teen smoking rates—and mortality rates for a host of diseases linked directly to smoking—the CDC's recommendations should be carefully considered by lawmakers. Indeed, the recent New York City experience and Helena, Montana's short-term experience with a smoking ban illustrate the power public policy can have on public health. And, in Kentucky, no public health threat is greater than that posed by smoking and the multigenerational impact it is having on the lives of young and old and the costs it is added to both publicly and privately financed health care.

Financial Security of Older Citizens At Risk

When Alan Greenspan urged Congress to cut future benefits in Social Security and Medicare, some recoiled, but others observed that he was understating the magnitude of the fiscal problems that lie ahead for the federal government. Today's budget deficits are measured in the hundreds of billions, but the looming shortfalls for the two retirement programs are projected to be in the tens of trillions of dollars. And federal obligations to seniors include two of the federal government's largest programs: Social Security and Medicare.

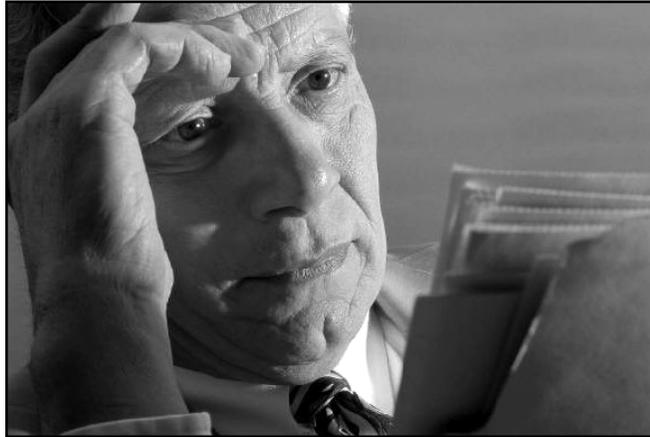
Anticipating the need for additional resources, Congress amended the Social Security law in 1983 in an effort to shore up the system's finances over the long term. One of the changes they made was to raise the age for receiving full benefits, phasing in a later eligibility for all individuals born in

1938 or later, increasing the age for receiving full benefits from 65 to 67. But a study by Boston College's Center for Retirement Research recently found that most people are unaware of the rising age for eligibility. Moreover, they tend to overestimate both their pensions and their savings, a combination of factors that could lead to poor preparation for retirement.

And though the new Medicare program for prescription drugs could in itself cost up to \$7 trillion over the next 75 years, 62 percent of Americans 65 and older say the changes did not go far enough, according to the Gallup Organization. Additionally, employers have unleashed a new wave of cutbacks in company-paid health benefits for retirees, with a growing number of companies saying that retirees can retain coverage only if they are willing to bear the full cost themselves. Others are simply eliminating it altogether.

To add to the growing financial pressures on seniors, *The New York Times* reports that many pension funds are turning to riskier investments, hoping that hedge funds, venture capital and the like will fuel returns and cover recent losses. A small but growing part of the \$2 trillion in state and local pension funds is being steered into high-risk investments by pension consultants and others who often have business dealings with the very money managers they recommend, and a few of these pension funds have come up short, forcing the governments to draw on tax dollars.

A few years ago, the city of Houston decided to sweeten its workers' retirement benefits, *The Houston Chronicle* reported recently. Along with their traditional pensions, city workers nearing retirement were offered special accounts fed with money from the city



pension fund. Although the accounts would pay generous returns, a study showed that the cost to the city would be modest. What seemed a good idea then now looks ruinous. The city pension fund cannot support the payouts and has about \$1.9 billion less than the benefits it owes its workforce. City voters overwhelmingly voted that Houston should opt out of a Texas constitutional requirement that all pension promises be kept and killed pension guarantees for city workers. Similar pension sweeteners have backfired in Philadelphia, San Diego, and Milwaukee. Still these benefits plans are being promoted to other city officials across the country.

Maine has drawn a different lesson from the pension woes, *The New York Times* reports. Instead of shooting high, it is deliberately aiming for low but guaranteed investment income to pay for the retirement benefits of its workers. Maine's pension fund recently put a portion of its money into very conservative bonds. The bonds pay a low interest rate, but their values will rise or fall in tandem with the value of the pensions the state must pay its retirees, no matter what the markets do. The bonds' durations match the scheduled payouts to retirees. Academics said the strategy, called matching, adopted early enough, could have prevented the recent collapse of the pension funds at US Airways, Bethlehem Steel, and other companies.

Implications for Kentucky. Home to a poorer and larger aging population than in most states, Kentucky faces unique and challenging problems, from insuring its commitment to state employees to providing for a growing population of seniors, many of whom will likely have inadequate resources to meet their needs. What's more, federal programs may be strapped for cash in the years to come as we deal with the consequences of a mounting budget deficit. Federalism, downward fiscal pressure from the federal to state and local levels, has been the trend for many years. In short, yet another fiscal challenge lies on the immediate horizon for Kentucky's policymakers at every level.

Power Plant Pollution Compensation Sought

North Carolina has petitioned the Environmental Protection Agency to crack down on pollution it says is seeping across its borders from power plants in 13 other states. If the petition succeeds, states as far away as Michigan would have to cut power

plant pollution by more than 50 percent, while states nearer North Carolina would face reductions of 70 to 80 percent. In addition to Michigan, the states named in the petition are Alabama, Georgia, Illinois, Indiana, Kentucky, Maryland, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia.



North Carolina's action is a reflection of pressure on state and local governments, which face economic repercussions if they are not in compliance with tough new ozone standards that took effect on April 15 under the federal Clean Air Act. States are considering cracking down on power plants, lowering speed limits, and discouraging house painting during summer months in an effort to reduce the dangerous combination of ingredients that produce ozone—heat, nitrogen oxides, and the volatile organic compounds that are often found in paint and barbecue fluid.

Implications for Kentucky.

In short, higher costs for power in Kentucky, where low energy costs have been an important economic development tool, could result if a judgment forces Kentucky's coal-fired power plants to compensate other states for the pollution they generate. Moreover, the suit adds yet another dimension to the push to reduce emissions and improve air quality, as the economic interests of the state, its businesses, industries, and citizens alike could be at stake.



Fiscal Picture Brightening But Dark Clouds Remain

States across the country are reporting stronger tax collections this year. Stronger-than-anticipated tax revenues combined with tight spending practices over the past few years allowed 32 states to finish their 2004 fiscal years with surpluses. But most of those surpluses are small and a dark cloud looms. Tax revenues are not growing fast enough to offset the rapidly rising costs of Medicaid, pensions, and education, which account for most state spending.

As a result, 33 states faced projected revenue shortfalls in their 2005 budgets. At least two thirds of states report higher-than-expected revenue performance in at least one major tax category. Personal income taxes were above estimates in 18 states, and on target in 12.

Implications for Kentucky.

Circumstances here are much the same as in other states in that core programs and responsibilities are still being jeopardized by inadequate revenues. As with other states, our commitment to health care for

the most vulnerable of our citizens who are covered by the Medicaid Program, to continuous improvement in education, and to public employees depends on how we confront the revenue challenge before us.

Conference Details Inside

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